

If C had used actual contract price and contract costs in determining gross income for 1987, it would have reported gross income from the contract of \$500 rather than \$700, and would have reported a net operating loss of \$2,350, rather than \$2,150, which would have been carried back to 1986.

Under the look-back method, C receives interest with respect to a total 1986 hypothetical overpayment of \$138 (\$1,104 minus \$966). C is credited with interest on \$23 of this amount only from the due date of C's 1986 return until the due date of C's 1987 tax return, because this portion of C's total hypothetical overpayment for 1986 was refunded to C with interest computed from the due date of C's 1987 return and, therefore, was no longer held by the government. However, because the remainder of the total hypothetical overpayment of \$115 was not refunded to C, C is credited with interest on this amount from the due date of C's 1986 return until the due date of C's 1988 tax return.

Under the look-back method, C receives no interest with respect to 1987, because C had no tax liability for 1987 using either estimated or actual contract price and costs.

[T.D. 9315, 55 FR 41670, Oct. 15, 1990]

§ 1.460-6T Look-back method (temporary).

(a)-(h) [Reserved] For further guidance, see § 1.460-6 (a)-(h).

(i) [Reserved]

(j) *Election not to apply look-back method in de minimis cases.* Section 460(b)(6) provides taxpayers with an election not to apply the look-back method to long-term contracts in de minimis cases, effective for contracts completed in taxable years ending after August 5, 1997. To make an election, a taxpayer must attach a statement to its timely filed original federal income tax return (including extensions) for the taxable year the election is to become effective or to an amended return for that year, provided the amended return is filed on or before March 31, 1998. This statement must have the legend "NOTIFICATION OF ELECTION UNDER SECTION 460(b)(6)"; provide the taxpayer's name and identifying number and the effective date of the election; and identify the trades or businesses that involve long-term contracts. An election applies to all long-term contracts completed during and after the taxable year for which the election is effective. An election may not be revoked without the Commissioner's consent. A con-

solidated group of corporations, as defined in § 1.1502-1(h), is subject to consistency rules analogous to those in § 1.460-6(e)(2) (concerning election to use delayed reapplication method) and in § 1.460-6(d)(4)(ii)(C) (concerning election to use simplified marginal impact method).

[T.D. 8756, 63 FR 1919, Jan. 13, 1998]

§ 1.460-7 Exempt long-term contracts. [Reserved]

§ 1.460-8 Changes in method of accounting. [Reserved]

TAXABLE YEAR FOR WHICH DEDUCTIONS
TAKEN

§ 1.461-0 Table of contents.

This section lists the captions that appear in the regulations under section 461 of the Internal Revenue Code.

§ 1.461-1 General rule for taxable year of deduction.

- (a) General rule.
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 - (2) Special rules.
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 - (5) Apportionment of taxes on real property between seller and purchaser.
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 - (e) Dividends or interest paid by certain savings institutions on certain deposits or withdrawable accounts.
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§ 1.461-2 Contested liabilities.

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 - (2) Exception.
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 - (4) Examples.
 - (5) Liabilities described in paragraph (g) of § 1.461-4. [Reserved]
 - (b) Contest of asserted liability.
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- (2) Definition of the term "contest."
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 - (1) In general.
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 - (d) Contest exists after transfer.
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 - (g) Effective dates.

§ 1.461-3 Prepaid interest. [Reserved]

§ 1.461-4 Economic performance.

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 - (h) Liabilities arising under the Nuclear Waste Policy Act of 1982.
 - (i) [Reserved]
 - (j) Contingent liabilities. [Reserved]
 - (k) Special effective dates.
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 - (l) [Reserved]

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- (m) Change in method of accounting required by this section.
 - (1) In general.
 - (2) Change in method of accounting for long-term contracts and payment liabilities.

§ 1.461-5 Recurring item exception.

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- (b) Requirements for use of the exception.
 - (1) General rule.
 - (2) Amended returns.
 - (3) Liabilities that are recurring in nature.
 - (4) Materiality requirement.
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- (c) Types of liabilities not eligible for treatment under the recurring item exception.
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 - (1) In general.
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§ 1.461-6 Economic performance when certain liabilities are assigned or are extinguished by the establishment of a fund.

- (a) Qualified assignments of certain personal injury liabilities under section 130.
- (b) Section 468B.
- (c) Payments to other funds or persons that constitute economic performance. [Reserved]
- (d) Effective dates.

[T.D. 8408, 57 FR 12420, Apr. 10, 1992, as amended by T.D. 8593, 60 FR 18743, Apr. 13, 1995]

§ 1.461-1 General rule for taxable year of deduction.

- (a) *General rule*—(1) *Taxpayer using cash receipts and disbursements method.* Under the cash receipts and disbursements method of accounting, amounts representing allowable deductions shall, as a general rule, be taken into account for the taxable year in which paid. Further, a taxpayer using this method may also be entitled to certain deductions in the computation of taxable income which do not involve cash disbursements during the taxable year, such as the deductions for depreciation, depletion, and losses under sections 167, 611, and 165, respectively. If an expenditure results in the creation of an asset having a useful life which extends substantially beyond the close of the taxable year, such an expenditure may not be deductible, or may be